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SUBJECT: POLAND'S UNCOMMON AGRICULTURAL POLICY

REF: Warsaw 823, Pawlak-Quanrud Meeting

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¶11. (SBU) Summary. This cable outlines the upcoming crisis in Polish agriculture. The rural economy enjoys significant subsidies from the EU Common Agricultural Policy (CAP), but the CAP, drought, and a failure of leadership from the Ministry of Agriculture, are creating the circumstances under which Poland will be a net agricultural importer of some primary commodities. Poland is France's strongest ally in support of the Common Agricultural Policy (CAP). This partnership blunts the interest of Poland in assisting the United States with its EU trade problems. Poland votes with France against the U.S. trade agenda in agriculture and the agenda items of the Transatlantic Economic Council (TEC). Poland's support for France helps the two nations act as a bulwark against CAP reform and lower future payments, but the CAP is part of Poland's problem down on the farm.

A Trade Imbalance Looms

¶12. (SBU) Two years of subpar grain and oilseed harvests are beginning to take their toll on the farm economy, and 2008 is shaping up to be just as bad. Poland's acreage devoted to grain production has slipped 500,000 hectares over the last ten years, while its yields have increased only slightly. Poland produces in an average year as much grain as it did in 1998, and in 2008, as in 2007, the crop will be below average due to poor weather. Poland has the highest animal feed prices in Europe and input prices for beef, pork, poultry, and dairy are climbing. Poland's borders with other EU nations are open and agricultural imports are flooding in, up twice as fast each year. A Pole visiting a grocery store is now just as likely to purchase imported pork, the ubiquitous staple protein of Polish cooking. Poland's hypermarkets are filled with products available from Western Europe, supplied by their economies of scale. Ten percent of the live hog population of Poland is imported rather than produced domestically. Crop producers are squeezed in the middle as high fuel costs and a 150 percent jump in fertilizer and pesticide costs are eating away at profits. Bright spots are visible in the trade of fruits and vegetables, and dairy is still profitable, but Poland's exports are flat at present and there is less Polish-produced meat every year.

Biotechnology is part of the problem

¶3. (SBU) Poland has an intensive outbreak of the European Corn Borer that caused a \$400 million corn crop loss in 2008. With agriculture worth \$35 billion to the economy annually, such a loss has a measurable impact. Due to this problem, Poland imports \$175 million in corn each year, a number that will rise in 2008 as the drought and pest problem worsen. The government banned the sale and registration of biotech seeds in mid-2006. A planned ban on importing GM crops as animal feeds was defeated by a coalition of Polish industry in July 2008. Poland is now considering adopting a regulation to approve coexistence principles for biotech products, and the Ministry of Environment has published a draft regulation. The strict draft law calls for regions to declare themselves GMO free, and threatens farmers with a three year jail term for planting in GM free regions. Farmers must make financial deposits to pay potential damages and get neighbors' permission before planting. Some scientists call for a 5 kilometer barrier between GM and conventional crops -- even crops that are non-pollinating. The Ministry of Environment uses the talking points of the anti-GMO movement and when it conducts education seminars or publishes materials they are derived from those sources. One expert advising the Ministry on biotechnology works for an NGO based in the UK that advocates farms return to using draft animals. (Comment. A bit of reality is needed at the Ministry of Environment which is the block on progress with the biotech issue. The Agriculture Ministry supports a new approach to biotechnology policy and acts accordingly. End Comment.)

The other problem is Poland's EU allies

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¶4. (SBU) Poland opened its borders to Europe and closed its borders to non-EU nations on May 1, 2004. Since then its farm economy prospered due to the import substitution of products from third-country markets. U.S. farm exports to Poland are off \$1 billion since its EU accession. Now, the more heavily subsidized farm economies of Old Europe are exporting their agricultural products to Polish consumers. The imported products are not food luxuries for wealthier Poles, but basic staples produced in Western Europe. Even as EU subsidy payments are supposed to equalize in theory as the full accession agreement factors in by 2013, Poland will never receive the high levels of subsidies enjoyed by France, for example, due to the calculation of payments based on historical yields. A French hog producer receives a payment on each carcass and no such program is available for his Polish counterpart. Even in 2013, Polish farmers will receive no more than one fifth in subsidy payments what a French farmer earns for the same crop. Land prices in Poland have risen quickly, and input prices are the same for each producer, so where is the equity in modulating payments across member states as is required under the CAP? Polish farmers know they face open borders and their own access to store shelves competes with other EU farmers. While Polish farmers are becoming more vocal about the problem of the permanent discrimination they face, the Ministry of Agriculture will not shift its support away from France until after the CAP Health Check and the end of the French EU Presidency. Poland voted against U.S. poultry access to the EU in Brussels last month, largely under the sway of France, but also because of its own current difficulties over the competitiveness of its poultry industry. Polish veterinary sources say that the United States would have a better chance advancing U.S. poultry access post-French EU Presidency.

¶5. (SBU) Agriculture Minister Sawicki is focused on his leadership fight with Minister of Economy and Deputy Prime Minister Pawlak at their Polish Peoples Party (PSL) party election in September. Sawicki's best chance to use the Agriculture Ministry to sway the election is to keep the spigots open for EU funds. Sawicki is popular and he may win in a race against Pawlak, but sources

indicate he plans to remain in his present post. During negotiations with majority coalition partner Civic Platform (PO), Sawicki may wish to push Pawlak aside for his own preferred candidate to run the Ministry of Economy. Andrzej Lepper held the post of Deputy Prime Minister and Minister of Agriculture during the PIS-Samaobrona coalition, but getting the title will be something Sawicki must negotiate. Recently, Pawlak has indicated a new openness to support biotechnology and market oriented CAP reform, see reftel. Sawicki has proven himself capable of tackling tough problems such as reform of the agricultural pension system, defeating a ban on biotechnology in animal feeds, or pushing the EU Council of Ministers to expand the dairy quota. The extent to which Sawicki will be allowed to change ministerial positions depends on the strength of the original coalition agreement with PO and whether he can cope with accusations of political favoritism. The Prime Minister's office overruled a Sawicki appointment to the Agricultural Marketing Agency, the smaller of the two EU CAP payment agencies, due to that fact.

¶6. (SBU) Comment. After the French EU Presidency ends, and Sawicki's power base at the Ministry of Agriculture strengthens after PSL party elections, expect to see Poland act more independently on issues relating to the CAP and biotechnology. Poland's farmers are losing ground, and the Ag Ministry knows it. End comment.

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